

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 RSC-01 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-01

CEA-01 IO-10 NEA-09 DODE-00 PA-01 USIA-06 PRS-01

FEA-01 INT-05 OES-03 L-02 H-01 /105 W

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R 070930Z FEB 75

FM AMEMBASSY RANGOON

TO SECSTATE WASHDC 9131

AMEMBASSY MANILA

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MANILA FOR USADB

FOR NAC AGENCIES

E.O. 11652: N/A

TAGS: EAID, EFIN, BM

SUBJECT: GUB REQUEST FOR ADB FINANCING OF OIL FACILITIES

REF: MANILA 1644

1. SUMMARY AND CONCLUSION: EMBASSY WOULD HAVE NO OBJECTION TO PROJECT IF APPROACHED ALONG LINES SUGGESTED PARA 5 REFTEL, IF IT DOES NOT JEOPARDIZE OTHER, MORE TRADITIONAL AND NECESSARY TYPES OF ADB DEVELOPMENT LOANS FOR BURMA, AND IF TECHNICAL MERITS ARE CLEARLY DEMONSTRATED. END SUMMARY.

2. GUB WOULD PREFER ADB PACKAGE LOAN TO FINANCE EXPANSION OF OIL PRODUCTION FACILITIES FOR VARIOUS REASONS INCLUDING THOSE CITED REFTEL. NATURALLY, BURMESE WOULD LIKE TO OBTAIN CREDIT ON MOST GENEROUS AVAILABLE TERMS AND, WHILE REFTEL DOES NOT SPECIFY WHETHER LOAN WOULD BE FROM REGULAR OR SPECIAL FUNDS, WE ASSUME LIMITED OFFICIAL USE

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GUB HOPES FOR LATTER. BURMESE HAVE ALSO A STRONG PREFERENCE

FOR NON-TIED CREDITS AND INTERNATIONAL BIDS IN ORDER TO ASSURE THE BEST PRICE AND TO PROTECT OFFICIALS AGAINST LATER SUSPICION OF FAVORITISM IN DETERMINING SUPPLIERS. FINALLY, A SINGLE LOAN TO COVER ALL ASPECTS OF EXPANSION PROJECT GREATLY SIMPLIFIES THE GUB'S INTERNAL ACCOUNTING PROCEDURES.

3. ON THE OTHER HAND, IT IS LIKELY THAT GUB WOULD ACCEPT BILATERAL COMMERCIAL CREDITS IF PREFERENTIAL CREDITS FROM ADB NOT AVAILABLE TO COVER ENTIRE PROJECT. FOR ECONOMIC AND FINANCIAL REASONS, IT IS LESS LIKELY THAT IT WOULD SOLICIT PRIVATE COMMERCIAL CREDIT. BURMESE ALREADY HAVE APPROACHED JAPANESE OFFERED COMMERCIAL FINANCING INSTEAD. (RANGOON 3187). GUB HAS ALSO HELD PRELIMINARY DISCUSSIONS ABOUT AVAILABILITY WITH EX-IM BANK ALTHOUGH WE ARE UNAWARE OF EX-IM RESPONSE. IN CONSIDERING THE BURMESE APPLICATION, WE PRESUME ADB ALSO WOULD TAKE INTO ACCOUNT TO WHAT EXTENT APPROVAL OF THIS LOAN MIGHT AFFECT OTHER GUB CURRENT OR POTENTIAL LOAN PROPOSALS FOR WHICH COMMERCIAL CREDIT WOULD PROBABLY NOT BE AVAILABLE, I.E. IRRIGATION PROJECTS, ETC.

4. AS TO THE MERITS OF THE OIL PROPOSAL, IT IS DIFFICULT FOR US TO ASSESS ITS TECHNICAL OR FINANCIAL VALIDITY. AS DESCRIBED REFTEL, IT DOES NOT APPEAR TO INCLUDE FINANCING FOR DEVELOPMENT AND PIPELINE CONSTRUCTION AT THE NEWLY-DISCOVERED LETPANDO OILFIELD, FOR WHICH GUB HAS ALSO BEEN SHOPPING AROUND. GUB IS COUNTING HEAVILY ON THIS FIND TO REACH SELF-SUFFICIENCY IN DOMESTIC PRODUCTION (RANGOON 105 NOTAL). DESPITE A CLAIM BY MINISTER OF MINES THAT THE FIELD WILL BE PRODUCING 20,000 BPD IN NEXT YEAR OR TWO, SUFFICIENT TO END RELIANCE ON CRUDE IMPORTS, OTHER QUALIFIED OBSERVERS BELIEVE THIS ASSERTION PREMATURE AND PERHAPS OVERLY OPTIMISTIC (AS BURMESE ASSESSMENTS OF OIL DISCOVERIES HAVE TENDED TO BE IN PAST). ONLY TWO TEST WELLS HAVE BEEN DRILLED AT LETPANDO, AND THESE ONLY 400 FEET APART. RESERVES AT LETPANDO ARE THEREFORE UNKNOWN, AND THIS, LIKE OTHER BURMESE ONSHORE FINDS, MAY BE A RELATIVELY SMALL RESERVOIR.

5. IF THE BURMESE PROPOSAL DOES NOT COVER LETPANDO, WE CONCLUDE THAT IT IS BASICALLY A REQUEST FOR FINANCING FOR WILDCAT DRILLING PROGRAM (DRILLING RIGS, MACHINE SHOP MAINLY FOR SERVICING RIGS, ETC.). WE LEAVE TO WASHINGTON AGENCIES A DETERMINATION OF WHETHER INTERNATIONAL LENDING INSTITUTIONS SHOULD FINANCE THIS TYPE OF LIMITED OFFICIAL USE

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INVESTMENT WHICH HAS SOME OF THE CHARACTERISTICS OF VENTURE CAPITAL. IF SO, THERE WOULD SEEM TO BE NO REASON FOR EXCLUDING BURMA.

6. ORDINARILY WE WOULD EXPECT A LARGE PROPORTION OF ORDERS PLACED UNDER SUCH A PROJECT TO GO TO U.S. SUPPLIERS, BECAUSE OF TECHNICAL CONSIDERATIONS AND THE STRONG BURMESE PREFERENCE FOR U.S. OILFIELD EQUIPMENT. WE FEAR, HOWEVER, THAT HEAVY ORDER BOOKS

OF U.S. SUPPLIERS, AND THEIR UNDERSTANDABLE RELUCTANCE TO BECOME INVOLVED IN THE CUMBERSOME RED TAPE OF GUB/ADB BIDDING PROCEDURES, MAY TEND TO DIVERT SOME OF THIS BUSINESS TO COMPETITORS IF UNTIED FINANCING IS AVAILABLE. DEPT. MAY WISH TO ASSESS COMMERCIAL CONSIDERATIONS FOR U.S. FIRMS IN LIGHT OF UP-TO-DATE INFORMATION ON CURRENT DEMAND FOR OILFIELD EQUIPMENT. IF U.S. SUPPLIERS ARE CAPABLE OF FULFILLING BURMESE INTEREST, IT WOULD SEEM ADVISABLE TO OBTAIN PRELIMINARY EXIM-BANK REACTIONS TO POSSIBLE PROVISIONS OF COMMERCIAL FINANCING.

7. ADB PRESIDENT PRESENTLY IN RANGOON AND WE ASSUME THIS PROJECT FORMS IMPORTANT PART OF HIS DISCUSSION WITH GUB.
OSBORN

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